SaskTel

Consolidated Financial Statements of

SASKATCHEWAN TELECOMMUNICATIONS INTERNATIONAL, INC.

December 31, 2005

106-04471/

President's Message

SaskTel International (SI), a wholly owned subsidiary of SaskTel, helps its clients in countries around the world to develop, improve and expand their telecommunications systems by providing infrastructure project management services.

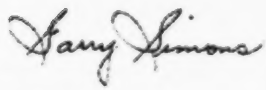
Over its 19 years of existence, SaskTel International has helped bring total revenues through its three lines of business - software solutions, project management and investments of $500 million and total profits of $122 million to SaskTel. Recording our fourteenth consecutive profitable year, our income for 2005 exceeded one million, bringing total operating profits exclusive of investment gains since 1986 to more than $21 million.

SaskTel International's success in 2005 can largely be attributed to our software organization which had its best financial year to date generating over ten million in revenue. All SaskTel International's revenues and profits are repatriated to SaskTel, where they are used to sustain and improve SaskTel's network and services in Saskatchewan and enhance returns to the Province in the form of dividends.

Since 1986, SaskTel International has been marketing SaskTel's technological and software solutions expertise to customers around the world. Advanced technologies that were developed to serve the people of Saskatchewan, especially in fiber optics, digital switching and software systems, have opened the doors to international markets. SaskTel International's unique relationship with SaskTel, a successful independent operating communications company that is not affiliated with any specific equipment vendor, allows us to search the international marketplace and offer unbiased solutions to its customers.

SaskTel International has also given many employees the opportunity to work on international projects to further grow and enhance their skills for when they return to SaskTel. Since 1986 SaskTel International has given technical expertise to international markets by participating in over 60 projects in more than 30 countries. Presently, SI provides employment for 98 people.

SI believes the telecommunications market will continue to show positive growth and provide many opportunities for SI to secure work throughout the world. In 2006, as the telecom sector continues to grow, we fully expect SI to show an increase in revenues over 2005.



Garry Simons
President, SaskTel International

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Chartered Accountants
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AUDITORS' REPORT

To the Members of the Legislative Assembly, Province of Saskatchewan

We have audited the consolidated statement of financial position of Saskatchewan Telecommunications International, Inc. as at December 31, 2005 and the consolidated statements of operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Regina, Canada
February 7, 2006

KPMG LLP, a Canadian limited liability partnership is the Canadian member firm of KPMG International, a Swiss cooperative.

Consolidated Statement of Operations

For the year ended December 31, (Thousands of dollars)	2005	2004
Sales and consulting revenue	$13,958	$10,028
Direct expenses	9,345	6,405
Gross profit	4,613	3,623
Operating expenses	3,599	3,385
Restructuring charges	49	20
	3,648	3,405
Income from operations	965	218
Other items	79	240
Net income	$1,044	$458

See accompanying notes

Consolidated Statement of Retained Earnings

For the year ended December 31, (Thousands of dollars)	2005	2004
Retained earnings, beginning of year	$1,792	$7,746
Net income	1,044	458
	2,836	8,204
Dividends	940	6,412
Retained earnings, end of year	$1,896	$1,792

See accompanying notes

Consolidated Statement of Financial Position

As at December 31, (Thousands of dollars)	2005	2004
Assets		
Current assets		
Cash and short-term investments (Note 3)	$2,484	$9,111
Accounts receivable	1,405	782
Work in process	472	346
Prepaid expenses	32	45
	4,393	10,284
Property, plant and equipment (Note 4)	1,333	915
Investment (Note 5)	12	43
	$5,738	$11,242
Liabilities and shareholder's equity		
Current liabilities		
Accounts payable and accrued liabilities	$1,619	$2,038
Service billed in advance	283	-
Dividend payable	940	6,412
	2,842	8,450
Shareholder's equity		
Share capital		
Authorized-unlimited number of class A common shares		
Issued - 1,000,000 shares	1,000	1,000
Retained earnings	1,896	1,792
	2,896	2,792
	$5,738	$11,242

See accompanying notes

On behalf of the Board

Robert Watson

Randy Stephanson

Consolidated Statement of Cash Flows

For the year ended December 31, (Thousands of dollars)	2005	2004
Cash provided by (used in):		
Operating activities		
Net income	$1,044	$458
Items not affecting cash (Note 6)	266	76
Other operating items (Note 7)	(1,026)	783
	284	1,317
Financing activities		
Dividends paid	(6,412)	(789)
	(6,412)	(789)
Investing activities		
Property, plant and equipment expenditures	(499)	(675)
Equity investment acquired	-	(51)
	(499)	(726)
Increase (decrease) in cash	(6,627)	(198)
Cash and cash equivalents, beginning of year	9,111	9,309
Cash and cash equivalents, end of year	$2,484	$9,111
Comprised of:		
Cash	$167	$21
Short-term investments	2,317	9,090
	$2,484	$9,111

See accompanying notes

Notes to Consolidated Financial Statements

Note 1 – The Corporation

Saskatchewan Telecommunications International, Inc. (the Corporation) is incorporated under the laws of the Province of Saskatchewan. The Corporation is a wholly owned subsidiary of Saskatchewan Telecommunications Holding Corporation (Holdco) with the mandate of pursuing core telecommunications business opportunities worldwide.

The financial results of the Corporation are included in the consolidated financial statements of Holdco. As a wholly owned subsidiary of Holdco, a Saskatchewan Provincial Crown corporation, the Corporation is not subject to Federal or Provincial income taxes in Canada.

Note 2 – Summary of significant accounting policies

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The most significant policies are outlined below.

Subsidiaries and investments

The consolidated financial statements include the accounts of the Corporation and its subsidiaries with all significant intercompany transactions and balances being eliminated. Investments in companies in which the Corporation has significant influence are accounted for by the equity method.

Declines in value below cost, of investments held using the equity method, are recognized as a charge to income when such declines are considered to be other than temporary.

The following is a summary of the operating entities under the Corporation's group of companies:

Name	Percentage ownership	Basis for inclusion
Operating entities:		
SaskTel International Consulting, Inc.	100%	Consolidation
Saskatchewan Telecommunications International (Tanzania) Limited	100%	Consolidation
Lootah SaskTel LLC	49%	Equity

The Corporation owns 100% of a non-operating entity, Battleford International, Inc.

Cash and short-term investments

Cash and short-term investments include interest bearing investments with Holdco that are due on demand and are stated at cost which approximates market value.

Work in process

Work in process is valued at the lower of cost and net realizable value.

Notes to Consolidated Financial Statements

Note 2 – Summary of significant accounting policies, continued

Property, plant and equipment

Office furniture and equipment, and software are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization is calculated on a straight-line basis over the estimated useful life of the asset.

Asset	Estimated useful life
Office furniture and equipment	4 – 17 years
Software	5 years

With respect to software developed over time, the Corporation follows the policy of capitalizing related equipment, labour and installation costs as software under development. These costs are then amortized on a basis consistent with the Corporation's amortization policy from the date the asset is substantially completed and put into productive use.

Revenue recognition

Operating revenues for perpetual licenses are recognized on delivery or according to the terms of the license agreement. Where the arrangement includes multiple elements, perpetual license revenues are recognized on delivery, provided the undelivered elements are not essential to the functionality of the license and the Corporation has evidence of fair value for all the undelivered items. If payment is subject to customer acceptance, revenue is not recognized until customer acceptance or expiration of the acceptance period. Support and maintenance fees are recognized over the term of the contract. Fees for professional services, other than in the context of multiple element arrangements are recognized as services are rendered.

Revenues for turn-key telecommunication projects and consulting services are recognized using the percentage of completion method or the achievement of contract milestones. Amounts billed or paid in advance of services provided are recorded as deferred revenue.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the year-end exchange rates. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. Translation gains and losses on foreign currency denominated monetary items are taken into income in the current year.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent asset and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amounts of software. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods.

Notes to Consolidated Financial Statements

Note 3 – Cash and short-term investments

Short-term investments represent funds invested with Holdco at an interest rate of 3.24% (2004 – 2.47%).

Note 4 – Property, plant and equipment

	Cost	Accumulated depreciation and amortization	Net book value	
			2005	2004
			(Thousands of dollars)	
Office furniture and equipment	**$625**	**$262**	**$363**	$369
Software under development	**970**	-	**970**	546
	$1,595	**$262**	**$1,333**	$915

Note 5 – Investment

	2005	2004
	(Thousands of dollars)	
Significantly influenced companies: equity method		
Lootah SaskTel LLC	**$12**	$43

Note 6 – Items not affecting cash

	2005	2004
	(Thousands of dollars)	
Depreciation and amortization	**$81**	$68
Net loss in equity investment	**31**	8
Service recognition defined benefit program curtailment		**154**
	$266	$76

Notes to Consolidated Financial Statements

Note 7 – Other operating items

	2005	2004
	(Thousands of dollars)	
Changes in non-cash working capital:		
Accounts receivable	($623)	$477
Prepaid expenses	13	(28)
Work in process	(126)	(346)
Accounts payable and accrued liabilities	(573)	680
Unearned revenue	283	-
	($1,026)	$783

Note 8 – Financial instruments

Currency exposure

The Corporation's primary business is international telecommunications consulting, through contracts, which entails exposure to foreign exchange risk. The Corporation's foreign exchange risk relates primarily to the risk that the market value of accounts receivable and the associated revenues, and accounts payable and the associated expenses will fluctuate due to changes in exchange rates. A portion of the Corporation's accounts receivable and accounts payable are denominated in United States dollars, Great Britain pounds, Tanzania schillings, United Arab Emirates dirhams, and Mozambique meticais.

Credit risk

The Corporation is exposed to credit risk relating to accounts receivable balances from international contracts. The accounts receivable balances are primarily from large telecommunications companies or international government development agencies.

Fair value

The carrying amounts of cash and short-term investments, accounts receivable, accounts payable, and dividend payable approximate fair value due to the short-term nature of the financial instruments.

Note 9 – Related party transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to Crown Investments Corporation of Saskatchewan (CIC) by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan and Holdco (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Other transactions in the normal course of operations are recorded at the exchange amount which is the amount of consideration established and agreed to by the related parties. These transactions and amounts outstanding at year-end are as follows:

Notes to Consolidated Financial Statements

Note 9 – Related party transactions, continued

	2005	2004
	(Thousands of dollars)	
Sales and consulting revenue	$2,105	$2,285
Direct and operating expenses	907	989
Other income	123	248
Accounts receivable	61	74
Accounts payable and accrued liabilities	617	1,124

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Note 10 – Commitments and contingencies

In the normal course of operations, the Corporation becomes involved in various claims and litigation. While the final outcome with respect to claims and litigation pending at December 31, 2005 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Corporation's financial position or results of operations.